REPORT OF THE ANNUAL MEETING APRIL 29, 1983

noranda

ANNUAL MEETING REPORT

This brief report has been prepared for the benefit of shareholders who were unable to attend the Annual Meeting.

The meeting was convened at 2:30 p.m. at the Royal York Hotel, with about 700 in attendance. Alfred Powis, Chairman and Chief Executive Officer of the Company, acted as Chairman. There were 99,792,598 shares, or 78% of the total issued shares, represented either in person or by proxy.

The Annual Report, including the Auditors' Report, was submitted to the meeting.

The following were elected Directors of the Company: J.W. (Bud) Bird, Jack L. Cockwell, James C. Dudley, J. Trevor Eyton, Brian M. Flemming, Pierre Lamy, Paul M. Marshall, David E. Mitchell, André Monast, Donald S. McGiverin, W. Darcy McKeough, Fernand Paré, Alfred Powis, Antoine Turmel, H. Richard Whitall, William P. Wilder, Harold M. Wright and Adam Zimmerman.

J.W. Bird replaced T.H. McClelland, who retired after serving on the Noranda Board since 1975.

Clarkson, Gordon & Co., Chartered Accountants, were reappointed auditors.

Questions were asked concerning Noranda's debt structure and short term revolving credit, the dispute concerning Hemlo, Hemlo's shaft sinking program, and the Noranda Group's approach to improving productivity through more efficient use of human resources.

The meeting adjourned at 3:45 p.m.

NORANDA MINES LIMITED

Remarks to Shareholders
April 29, 1983

Opening Remarks by Alfred Powis

For almost anyone associated with Noranda, 1982 was a year we would like to forget, and about the only favourable thing about it is that it finally ended. It was a year in which our new President and I had the dubious distinction of presiding over the first loss in Noranda's history and, at $83 million, its dimensions were impressive. Even this figure understates the devastation to operating results since, in the absence of gains on the sale of U.S. tax credits, the loss would have been $140 million.

The reasons for this abysmal performance are well known, and the fact that we had a great deal of company provides only cold comfort. Quite simply, the world's resource industries faced the worst set of economic conditions since the early 1930's, and for some segments perhaps the worst ever. On one dismal day in June, for example, the price of copper on the LME reached a level which, in constant dollars, approached the lowest levels in records that go back over 100 years. Overlain on this were continuing cost escalation and high interest rates on mounting borrowings.

Over the years, we have tried to mitigate the impact of the cyclical nature of our business through diversification, by operating across a broad spectrum of the resource industries and by producing a broad range of products in our various industry segments. This was of little help in 1982, as demand and prices for nearly all the products of the Noranda Group were a simultaneous disaster. About the only benefit from diversification was a degree of difference in the timing of the bottom, with the worst metals and minerals results in the second quarter and the worst manufacturing and forest products results in the fourth.

Adding to the woe were protracted strikes at various Montreal area metallurgical and manufacturing operations during the second and third quarters, heavy termination payments at some operations, and write-downs of certain assets. To a considerable extent, this resulted from a painful but absolutely essential effort to control costs and maintain effectiveness in the face of vicious international competition. In the cir-

cumstances facing Noranda and other Canadian companies, a single-minded focus on corporate survival became the overriding priority.

Cash conservation was the central strategy in this program. A number of operations were closed for varying periods, capital expenditures were curtailed, salary levels were frozen, and a determined effort was mounted to moderate wage increases and improve productivity. As noted in the annual report, many of the necessary decisions involved a great deal of anguish. Large numbers of employees were affected by layoffs and in a number of cases their jobs were permanently eliminated. At the end of 1982 the Noranda Group had 11,400 fewer employees than a year earlier. And salaried staff still employed faced an erosion in real incomes.

Of course, the pain was not borne exclusively by employees. Over the course of the year, quarterly dividends on the common shares were slashed by 64% and the price of our shares at the low point in 1982 was less than a third of the previous year's high. Orders from suppliers of goods and services were cut to the bone, and our contribution to federal and provincial government revenues was negligible except for oil and gas operations. As stated in the annual report, it was simply a very bad year for everyone associated with Noranda.

To the extent possible, however, actions that might impair Noranda's longer range future were avoided. Capital expenditures, while $200 million less than originally planned, remained at a high level as the result of a decision to complete a number of major projects begun in previous years. Exploration and research efforts, while somewhat curtailed, still involved an aggregate expenditure of more than $100 million. And, as indicated by our major participation in the new Hemlo gold mining camp, we continued to react to attractive new opportunities despite an overall posture of restraint.

In addition, the virtual completion of a number of major projects by Noranda and affiliated companies during 1982 should make a significant contribution to results in the years ahead, although the added capacity is not exactly badly needed at present. These projects included five new mines, four major modernizations, three large expansions and a new manufacturing operation. Having largely completed these projects, we now plan a substantial reduction in capital expenditures in the interests of cash conservation, although we still intend to take advantage of new opportunities that may arise.

Noranda was fortunate in that it entered 1982 in strong financial condition in spite of heavy capital expenditures and investments in 1980 and 1981. This was largely the result of common and preferred stock financing, debt issues and asset sales which raised over $1.2 billion in 1981. In 1982, with large capital expenditures, continued dividends and operating losses, this financial strength was eroded to some extent, with a net increase in short and long term debt of $740 million. Nevertheless, Noranda's present financial condition is not a cause for concern.

In spite of the losses in 1982, Noranda did generate $114 million in cash from operations, an amount which nearly covered the dividends that were paid. In effect, borrowings during 1982 financed the capital expenditures and investments together with a $175 million increase in net working capital. Since the year end, Noranda has raised an additional $140 million in long term debt capital, and very large unused lines of credit are in place. Thus, pending a return to profitability, there should be no problem in financing our ongoing activities, particularly in the context of substantially reduced capital expenditures.

To discuss developments at various Noranda Group operations, and the manner in which they are coping with the current difficulties, I now turn the meeting over to Adam Zimmerman.

Remarks by A.H. Zimmerman

A year ago we knew things would be difficult, but not for so long as events have proven. To put some perspective on this, the total volume of product of Noranda and its associates fell from 3,143,000 mixed units in 1981 to 2,902,000 in 1982. The total value of this production fell $100 million while the cost to produce it increased about $170 million. On a unit cost basis, the values fell below our ability to achieve productivity gains. Almost everything we made fetched less than its cost to produce. Four and a half billion dollars of net assets failed to make an aggregate positive return.

The sad but unavoidable results of these conditions is a trimming off of sub-marginal operations. While in no case have we terminated operations with less than 24 months of cash loss behind them, we have closed five Canadian mines, one sawmill, one metal plant and made significant reductions throughout. Our work force in Canada and the U.S. is down 20% over the year, and at one point last year some 25,000 employees were affected by strikes or layoffs.

Simultaneously, we have cut back our capital program to projects which are mandated by legal or environmental requirements or those which indicate payoffs within three to four years. The major projects are mostly complete — Northwood II, MB Pine Hill, Noranda Aluminum III, Canada Wire at Montreal East and Leaside, the Horne oxygen plant and the CEZ roaster acid plant. Those mentioned add up to investments of $1.15 billion, which presumably will begin to pay off as the quality of product is recognized and the efficient production gains a market share. Fraser's Atholville rebuild should be complete by August while Maclaren continue their modernization plans and programs. A New Brunswick Zinc refinery has been deferred indefinitely for lack of any economic or demand basis, as has further investment in Brazil and Ireland.

The Group was subjected to some long and difficult strikes earlier in 1982, particularly in the Montreal area. Strikes by the Steelworkers Union at the copper refinery lasted 117 days, at Valleyfield, 106 days and at Noranda Metal, 60 days. The apparent underlying cause of these strikes was the failure by labour to recognize the quickly developing and steep economic tailspin affecting most of us. There was simply no justification for wage settlements similar to those which some major employers had made in 1981 but, because of carryover bargaining, some industries were still settling at excessive rates. As it turned out, employees recognized reality before their leaders and forced settlements which, in our circumstances, were reasonable. Nevertheless, these settlements did not come before the strikes had cost the Group about $24 million and the employees almost $14 million in lost wages.

Much of what I've just said can be regarded as the bad news and I have tried to make it short and sharp — which then, of course, allows me to dwell on the good news. First and most important, our distress and common peril has focused the attention of all personnel on the conditions for continuance. A concerted effort has been made to distribute or delegate authority to the lowest level and eliminate any unnecessary layers of management. Where commonly seven or more layers were found, many operations find they can live better with four. A management seminar last fall confirmed the corporate commitment to, and support for individual initiative at any level, consistent with a shared understanding of goals.

This effort has had a ripple effect throughout the company, so that wherever you go now to our operations, I think a fresh spirit can be found. Most new capital is being invested close

to home where, quite frankly, there is by far the best chance of a real rate of return. Examples of the combination of looking at things differently, and a modest new capital program are:

At Mattagami Lake Mines — for a total expenditure of $110,000, three projects in the concentrator will save about $20,000 per month through automation of backfill preparation and zinc concentrate dewatering and through a change in lime additions.

The sawmills in Prince George, with negligible new capital but a turned on work force, improved their productivity from 2,300 board feet per man day to 2,900 — a gain of 26% attributable to hard work!

In Edmundston-Madawaska, the increased computer utilization and introduction of mini computers throughout the administrative complex, while requiring $480,000 capital, indicates an annual saving of $850,000.

At Norandal in Tennessee, hard work and dedication has resulted in a throughput increase of 30% and a yield improvement of 1%. This adds up to improving the ability to find a competitive edge.

At the Horne Division in Noranda, Quebec, with the introduction of additional oxygen to the Noranda Process Reactor, there have been remarkable strides in operating efficiencies. Atmospheric dust emissions have been reduced 10% and fossil fuel consumption is down 20%.

These are but representative examples of the look-ahead mood throughout our operations — in the immortal words of Satchel Page — "Don't never look back, something might be gaining on you".

We have maintained our mineral exploration program at an annual level of $40 million. This is primarily concentrated in Canada, the United States and a small commitment in Australia. What is different about it is that a larger fraction is devoted to what might be called stepout exploration from existing operations. Examples of success in this are the acquisition of the Hemlo property in northwestern Ontario, the deep zone at Lyon Lake and the new E Zone at Murdochville.

We also have maintained our major commitment in oil and gas through our $75 million annual support of Canadian and American Hunter. These operations contribute an increasingly important share of profits and in the Elmworth field are main-

taining their record of steadily larger reserves and deliverability. Recent moves towards gas export incentives should enhance Hunter profits.

Notwithstanding these successes, we have been vexed, if not paralyzed by the adversary system of labour negotiation, which has been the accepted wisdom in Canada for too many years. As mentioned earlier, we, like others, have had work stoppages that made no sense whatever, except in the context of destroying the enterprise. Only when now, at last, further generosity to labour is going to actually close down the plant or means of a living, is everyone facing the stark reality. While this has been a fault of management as well as the work force, we now find the climate more closely reflecting reality and we maintain our policy to be fair but firm — very firm. It is clearly now incumbent upon management to create the climate of receptivity for workable labour agreements throughout the work force.

This is happening, in several ways. Some plants have eliminated one, two or three levels of authority, thus putting the worker in a position of relatively greater responsibility. Open meetings are held in many plants, thus providing illumination and opportunities for expression to all those concerned. In some cases, pay is linked to profit performance. In another, a new program of worker visits to customers has been instituted. None of this is going to produce results overnight — it's rather like turning a supertanker — the response comes some time after the original impulse.

At the very least, I think all of us understand that when we can't produce our products for less than the world marketplace will pay, something must give, and we can't give the company.

While the past year has perhaps had an unusual number of difficulties, we have had our high spots, the best of which has been the opportunity to participate in the newly discovered Hemlo gold field. This opportunity, coming as it did, soon after redefining our exploration focus close to home, verified our policies and we now have a new property only 30 miles from an existing major unit (Geco). It is a credit to all concerned that we are equipped and ready with staff, technology and all the other resources necessary to turn a prospect into reality very quickly.

This project has been a moving target for a number of reasons — the most important being the apparent growth of the

orebody. While the feasibility study awaits completion, to meet our November 1984 due date we have embarked on a project which may ultimately cost over $200 million, designed to first mine 1,000 tonnes per day beginning late 1984 and expanding continuously to 3,000 tonnes by 1987. Associated mill facilities will be sized to match and may include some custom facilities. I should say that the continuing enlargement of potential reserves make it possible that these will not be our only workings on this property.

At the same time, a shaft deepening project at Lyon Lake in northwestern Ontario gives promise of considerably enlarged reserves. Presently there are 1.5 million new tonnes indicated, grading higher values of zinc and silver than present reserves. This is an $18 million project that may even add more reserves than I've said.

Similarly, at Murdochville, geologists have defined what seems to be a new orebody of at least 7 million tonnes. A new intersection has identified an additional ore zone that further improves this new area. Together with a proposed joint government project to strip waste in the open pit, these developments should relieve the present distress in Murdochville. Given any kind of a copper price, these new areas should extend mine life and thus provide greater economic security for the community.

The Montreal manufacturing group's Norcast Division has worked out a pooling of interest with the Wabi Division of Canron to create an entity which we will manage and own 60%. This will permit diversified capability and efficiencies in the production of grinding media and general castings, as well as fabrication of some items of standard mine equipment. This will be fortified by the newly established Mining Technology Division of the Noranda Research Centre, the objectives of which are to increase productivity of capital and labour, increase ore recovery, improve the quality of the mining environment and ensure the excellence of Noranda Group mining technology.

As a fallout from the proven success of venture investors in the Maclaren company, the corporation has undertaken to fund this group in the name of Noranda Enterprise Limited. To put this in some perspective, the group now holds major positions in three venture capital partnerships, one genetic engineering partnership, Lumonics (lasers), Norpak (Telidon converters) and other investments. Activities to date have realized profits well in excess of the present net investment.

We have also felt it critical not to allow present restraints to crimp the future by shutting out high potential new entrants to our payroll. Accordingly, the corporation is funding 25 new university graduates for one year contracts in such operations as can gainfully use a free body or brain. Clearly, every place has such a demand and this program looks like an overwhelming success.

As a final word as to what's new, the budget can't hurt. Extension of time for utilizing investment tax credits and operating losses, broadened deductibility of depletion allowance, and flow through of corporate allowances to holders of new share issues, all will assist the restoration of our financial strength.

To give some kind of perspective, two quotations seem to me to describe the world our managers see about them at present. The first from an internal company report. "While Government seers and independent economic analysts all profess to see the beginnings of an upturn in business, in our view the reality is not as rosy as is being painted. While it is true that we have seen the first stirrings of improved economic activity, there has been to date no generalized trend that would instill buyer's confidence. The background is still one of excess industry capacity, hand-to-mouth purchasing policies, and consequent pressures against any (product) price increases in the absence of sustained strength in copper prices."

The second from the widely respected bank credit analyst — "At present, there are extraordinary efforts of the private sector to get liquid, a weak gold price, a strong dollar, an economic recovery which is still fragile and narrowly based, enormous slack in the goods producing industries and labour markets, depression throughout much of the rest of the world, extremely vulnerable debt structures and near record levels of real interests rates."

With this sort of overall economic scenario and the evident shift of much conventional manufacturing from Europe and North America to Asia and elsewhere, it is clear that our markets and opportunities are changing. Threats and realities of substitution are exacerbating this change. None of us can be sure what all of this means, but we surely must believe in the intensification of the knowledge based society. Most of what I have said relates to these changes — restricting capital expenditures to improve existing works, limited expansion, intensified employee involvement and careful viewing of new frontiers.

To sum up, we have tried and are trying to focus on the essentials which could be described as home base and related players. We are keeping a weather eye on the competition by careful technical and commercial analysis and we maintain several windows on the future, whatever that may be.

Closing Remarks by Alfred Powis

As noted earlier, we have been living through the most dismal set of economic conditions since the early 1930's, and for some industries perhaps the worst ever. However, the impact of this has been very uneven, with high technology companies being largely unaffected while primary industry has been devastated. For Canada, this has meant that what we used to assume would allow us to inherit the world — our strength in natural resources — has recently been our Achilles' heel, as this recession has hit us much harder than many of our trading partners. The resulting tragic human cost is producing a depression of the spirit and a profound change in attitudes.

Canadians have done a number of stupid things, and there is a long list of ways we have shot ourselves in the foot — policies that have seemed to take dead aim at incentives to invest and create wealth, federal-provincial warfare, a terrible labour relations climate, etc. Having said this, however, we would still be in deep trouble if we had done everything right. The whole world is in trouble, and with the sort of economy we have there is no way we can be insulated from it. The question we keep asking ourselves is what has happened? Why is this recession so much worse than anything we have known before?

For some, the current difficulties are a confirmation of the theory that democratic capitalist economies go through a long wave cycle of approximately 50 years. The rationale for this is that prolonged prosperity contains the seeds of its own destruction, as those who refuse to learn from history are condemned to repeat it. Wealth becomes something to be redistributed rather than being used to create even more wealth. Old fashioned values such as discipline, hard work, thrift and family become unfashionable. Institutions become stagnant, productivity declines, inflation takes hold, innovation and investment are stifled, speculation runs rampant, and governments, corporations and individuals become financially imprudent. Faced with this overload, the system begins to decay and eventually collapses.

Empirically, this sounds a great deal like what has been happening over the past 15 years, and this has led some to postulate that conditions in the 1980's will be similar to those 50 years ago. However, it would clearly be wrong to draw the analogy with the 1930's too far. Today, safety nets are in place which substantially mitigate individual hardship. Moreover, in the 1930's the situation was pushed to total disaster by collapse of the banking system. Looking at current financial problems around the world, there is no guarantee that it will not happen again, but it seems unlikely. We may not yet know how to sustain stable growth, but we do seem to have learned how to prevent financial collapse.

Nevertheless, it does seem clear that the 1980's will be a more difficult decade than those which preceded it. Our working hypothesis at Noranda is that we face slower real growth, interrupted by deeper recessions. Inflation will be subdued, and can no longer be counted on to paper over past mistakes, but fears of resurgence will keep the real cost of money high. We will have to contend with interventionist government policies and unstable markets. In particular, international competition within the resource industries will be fierce, exacerbated by the needs of developing countries to earn foreign exchange, and will be characterized by overt and hidden government subsidies, competitive currency devaluations and protectionism.

There is a school of thought which holds that primary industries, at least in the developed world, are entering a period of major decline in this environment as new technology and downsizing render their products obsolete. We regard this as nonsense. We may be going through a new industrial revolution, but people are not going to stop living in houses, driving cars or building new plants. There will still be a growing demand for resource products. What Canadians have to get rid of, however, is the notion that the rest of the world will come to us begging for our resources. We can sell our products, and prosper in doing so, but only so long as we are competitive. This is the major challenge facing Noranda, and Canadian industry in general.

There are several elements of this that are within our own control. The President has referred to the need for improved productivity, where Canada's recent record has been little short of appalling, and the problems with the collective bargaining system. A third important concern relates to technology. It is not

enough to have a productive and reasonably paid work force, because unless they are equipped with the most modern equipment and working practices they will still be unable to compete. In this regard, Noranda is in reasonable shape with the very heavy expenditures on new and modernized plant in recent years, but this area will require continuing attention and expenditure. In particular, there is a need to improve the spread of new technology and methods throughout the Group.

An area that is critically important, but beyond our direct control, is the international trading environment and the dangerous trend toward protectionism. Overt protectionism is one aspect, as evidenced by the recent threat of countervailing duties against Canadian lumber in the U.S., but there is another and more insidious aspect to the problem which relates to currency values. When viewing the value of our dollar, Canadians have tunnel vision and relate it only to U.S. currency. Thus we tend to believe that the Canadian dollar was weak in 1982, when in fact it was the world's second strongest currency. In terms of our competitive position in relation to the world outside North America this was bad enough. When combined with massive devaluations of the currencies of major competitors — Chile, Peru, Mexico, Zambia and Australia in mining and the Scandinavian countries in the case of forest products — the effect has been lethal.

There is not much we can do about the actions of other countries, but we can make sure our own house is in order. Noranda's objective is to emerge from this period with improved productivity, cooperative employee relations, efficient asset management and effective development and use of new technology. In spite of the problems, we are convinced that we can remain competitive on an international basis, and this is our overriding priority in the period ahead. But, while this will require an inward focus to some extent, as stated earlier we intend to remain receptive to any new opportunities that may present themselves.

As indicated in the annual report, Noranda's plans for 1983 and beyond are based on the assumption that lower nominal and real interest rates will permit a sluggish recovery to begin this year led by a revival in the North American housing and automobile markets. This should result in some improvement in the markets for certain Noranda Group products as the year progresses, notably lumber, copper and aluminum. Inherent in this forecast, however, was the assumption that this improve-

ment would really only have a significant impact on results in the second half, and that first half results would continue to be abysmal.

So far, unfortunately, we have been proven right about the first half. During the first quarter, there was a loss of $7.3 million or 13¢ per share compared with a loss of $18.3 million during the same period last year. Moreover, the comparison with last year flatters us, as the results include gains totalling $22.4 million after taxes from sale of MacMillan Bloedel's office building and Placer's treasury share issue. At their meeting this morning, your directors declared a common dividend of 12½¢ payable June 15 to shareholders of record May 13.

The first quarter reflected a continuation of trends apparent last year. There was a nominal profit from metals and minerals operations compared with a $15 million loss a year earlier, even though zinc and precious metals prices weakened and other markets were flat. On the other hand, manufacturing recorded a substantial loss compared with a small profit the previous year, and the forest products loss was substantially increased. In addition, net borrowing costs were higher due to increased debt and the expensing of interest previously capitalized.

While these results are totally unsatisfactory, they are about on plan except for the unscheduled bookkeeping gain on the issue of Placer treasury shares. Moreover, while there are as yet only faint stirrings of life in the markets for our products, we still believe that our expectations for the year as a whole are achievable. This would imply a further loss in the second quarter, but a return to profitability in the second half resulting from improved demand and prices for certain of our products. If this happens, results for the year as a whole will be much better than in 1982, although still totally unsatisfactory.

However, in spite of what has happened to us, we find a great deal to be cheerful about as we undertake our periodic review of the Noranda Group's strengths and weaknesses. Noranda's basic position remains strong, with a good strategic position in the industries in which we operate, modern and competitive plant and equipment, a solid financial structure and a number of new facilities that should make an important contribution when conditions improve. If this position can be combined with the enhanced productivity and technological gains we are seeking, the future can be very bright indeed.

All of our projections indicate that Noranda has impressive earning power in the context of any reasonable set of economic conditions, and our planning calls for this to be manifested in 1984-85. This assumes continuation of a slow but sustainable recovery beginning this year and, to a considerable extent, this assumption rests on a knife-edge. The world's economies are in fragile condition and mistakes in policy could well abort the recovery. To believe mistakes will be avoided may represent a triumph of hope over experience, but important lessons seem to have been learned over the past few years as evidenced by the recent federal budget. In any case, we believe the organization is well attuned to the realities of the 1980's, and has the flexibility to react appropriately to whatever conditions develop.

The past two years have not been much fun for employees throughout the Noranda Group. Senior management have had to implement painful decisions which, among other things, have created hardship for employees at all levels. And, for an entrepreneurial organization, the stringent controls required have been frustrating. Nevertheless, the reaction of the organization generally has been everything we could have hoped for, and the Directors wish to thank the employees for their dedicated and highly effective efforts. In the end, it will prove to have been well worth it.